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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001202

SIPDIS

STATE FOR EB, NEA/NGA AND EB/CBA,
COMMERCE FOR ITA/MAC/ONE (CHERIE LOUSTAUNAU AND CARL OBERG)
STATE PLEASE PASS TO USTR FOR DOUG BELL

E.O. 12958: DECL: 05/26/2013

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SUBJECT: MIDDLE EAST TRADE INITIATIVE: YEMEN

REF: A) SECSTATE 135263 B) TUNIS 1273

Classified By: By DCM Alan G. Misenheimer for 1.5 (b.) and (d.)

11. (C) Summary: The ROYG will respond very positively to the Middle East Trade Initiative. Yemen should accede to the World Trade Organization in five years and that process should help reinvigorate efforts to conclude a Bilateral Investment Treaty. Sub regional FTAs could have wide benefits for Yemen; GCC membership for example is a top economic policy objective for Yemen. To qualify, Yemen will need technical assistance in WTO accession, privatization, regulatory enforcement and public relations. End Summary.

12. (C) The Middle East Trade Initiative will be welcomed by the ROYG as an excellent avenue to develop business infrastructure and investment climate as a means to raise Yemen's standard of living and institutionalize economic reform. Several contacts in business and government sectors are seeking USG assistance in meeting WTO accession requirements and expansion of USG investment in Yemen. The Middle East Trade Initiative will also compliment USAID and MEPI assistance projects.

WTO Accession: Four to Five Years

13. (C) In October 2002, Yemen submitted its Memorandum of Foreign Trade Regime to the World Trade Organization. Accession for Yemen is still four to five years away; Yemen is currently working hard to answer questions from the European Union, the United States and Australia. The EU has pledged 7 million Euros to help Yemen accede, and the Dutch and World Bank plan on holding Yemen's Integrated Framework Conference in June.

14. (C) We believe this initiative will also reinvigorate our efforts to conclude a bilateral Investment Treaty that we have been working on with the Ministry of Finance for the past year. Progress has stalled as Yemen works on meeting the USG's core text requirements.

Subregional FTAs: Bridging the Gap
between Yemen and other Gulf Countries

15. (C) Subregional FTAs would be beneficial for Yemen, especially if Yemen gains admission to the Gulf Cooperation Council. However, we note Embassy Tunis' (Reftel B) concerns that intra-region politics may hamper the development of subregional free trade agreements. Our contacts have told us that Gulf countries compete with each other in similar economic sectors, such as oil and transshipment business, the two core aspects of the Yemeni trade economy. To counteract such competition, we suggest that the Middle East Trade Initiative encourage the development of complimentary sectors in subregional countries.

Investment Climate: Micro-Enterprise
and Export Industry Development

16. (C) Post is already engaged in developing Micro-Enterprise projects and expanding business related education as part of our MEPI strategy. Expansion of export tied financing programs could help USG firms do business in Yemen. Yemenia Airlines representatives told Pol/econoff that they prefer to buy Boeing planes, however loan terms offered by Airbus were too good to pass up and therefore they placed their last order with Airbus.

Technical Assistance: WTO Accession,
Privatization, and Public Relations

17. (C) The following are possible areas for technical assistance:

-- WTO Accession (A): Fortifying Yemen's copyright protection enforcement is one area that where USG technical assistance would aid Yemen. Post does not assess intellectual copyright issues to be a major problem for Yemen, but developing a sound legal structure would greatly assist the accession process. Any help that we can provide to ensure that future IPR problems do not occur will encourage both trade and investment in Yemen.

-- WTO Accession (B): Export industries should be made aware of the benefits of WTO status: a technical assistance program for exporters to meet quality control and world trade organization standards for their goods would provide significant future dividends for domestic industry.

-- Privatization: Assistance programs to encourage ROYG efforts to privatize the banking industry and national gas companies would help diversify the economy.

-- Public Relations: Our contacts at the General Investment Authority and at the Ministry of International Cooperation are eager for Public Relations assistance that would promote Yemen's tourism, industry and trade.

Comment: Foreign Direct Investment a Key to Yemen's Future

18. (C) Comment: Foreign direct investment is an imperative for Yemen, which could eventually lose as much as one-third of its GDP as oil incomes decline in the next twenty years and its twenty plus million population is increasing at a rate of 3.7% a year. Free trade agreements are crucial to encouraging direct investment, and will be a valuable asset in our encouragement and assistance to help Yemen diversify its economy.
MISENHEIMER